Nebraska Advantage Microenterprise Tax Credit Act

Bill Weekly

Mary Hugo

Nebraska Department of Revenue 402-471-5790

mary.hugo@nebraska.gov www.revenue.ne.gov

402-471-5862

Kim Nelson 402-471-5947





Microenterprise Tax Credit Act

- There is \$2 million available, per calendar year through 2010, for <u>individuals</u> who are actively involved in a <u>microbusiness</u> at an <u>eligible</u> location
- An individual and their related parties are limited to a <u>lifetime</u> \$10,000 refundable credit





Eligibility

Credit Calculation

Filing requirements





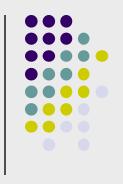
- Individual actively involved in eligible microbusiness
 - Size
 - Tax Status
 - Location
 - Qualifying business activity
- Timely application
- Growth in investment or employment





- The application is filed by an individual actively involved in day to day operations of the microbusiness
 - Personal involvement on a continuous basis in the daily management and operation of the business





- Each individual and their related parties are limited to a lifetime credit of \$10,000
- Related party
 - Parent, spouse, child and sibling
 - Section 267(b) & (c), Section 707(b) of IRC





- Size
 - Five or fewer full-time equivalent employees at time of application
 - Hours paid cannot exceed 200 per week
- Tax Status
 - Entity must be subject to income tax
 - At least 90% of the owners of the flow-thru entity must be subject to income tax





- Qualifying hours at the project, divided by 40 times number of weeks in year
- Allowable Hours
 - regular, overtime at straight time, vacation, sick, holiday, jury, military
- Disallowed hours
 - vacation paid upon termination, hours associated with bonus, hours entered for severance pay





- Eligible_Location
 - List of qualified locations:

www.revenue.ne.gov

- All locations in counties other than Washington and Lancaster are eligible
- Within Washington and Lancaster counties:
 - Certain municipalities qualify
 - Certain census tracts qualify

Nebraska Advantage Microenterprise Tax Credit Act Qualified Locations

Microenterprise Information | Tax Incentives Home

For applications filed on or after January 1, 2008:

Counties in which all locations are eligible:

All Nebraska counties except Lancaster and Washington

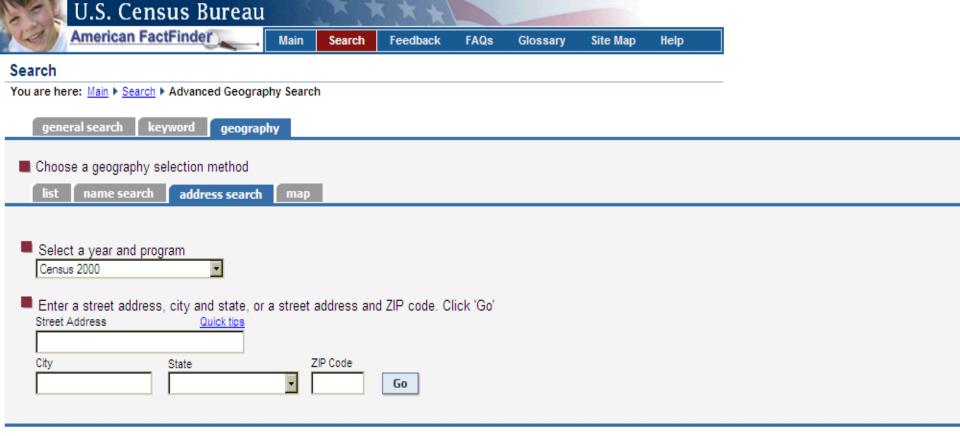
Municipalities in which all locations are eligible:

Arlington, Bennett, Blair, Davey, Fort Calhoun, Hallam, Herman, Hickman, Kennard, Lincoln, Malcolm, Panama, Roca, Sprague, and Waverly.

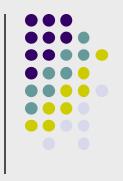
Census tracts in which all locations are eligible:

To find the census tract for a location, go to the U.S Census Bureau Web site and enter the address.

Lancaster	0001.00, 0002.02, 0003.00, 0004.00, 0005.00, 0006.00, 0007.00, 0008.00, 0009.00, 0010.00, 0015.00, 0016.00, 0017.00, 0018.00, 0019.00, 0020.00, 0021.00, 0022.00, 0023.00, 0027.01, 0029.00, 0030.01, 0030.02, 0030.03, 0031.01, 0032.01, 0032.02, 0033.00, 0034.00, 0035.00, 0036.01
Washington	0501.01

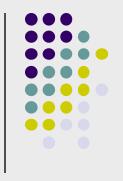






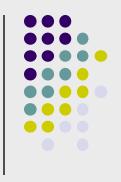
- Qualifying Business Activity
 - All business activities qualify other than certain farm and livestock activities
 - Allowable farm & livestock activities: ag tourism, aquaculture, production of fruits, herbs, trees, organic crops, vegetables, or nursery crops
 - <u>Disallowed</u> farm & livestock activities: other farm and livestock activities if the net worth exceeds \$200,000





- An applicant, including spouse or dependent, may not have a net worth more than \$200,000 based on market value
 - Land and equipment (net of debt)
 - Grain held for sale
 - Raised breeding stock
 - Home, vehicles and investments





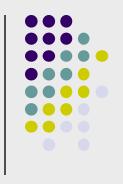
- Application filed after November 1 will be considered to be filed on the first business cay of the following calendar year
- Applications processed in order received
 - \$2 million available per year through 2010





- Form with attachments: <u>www.revenue.ne.gov</u>
 - No fee
 - Complete Part 1
 - Request a portion of the available funds to be reserved for your project - <u>use estimates</u>
 - Establish base year
 - Form W-3N; tax returns for applicant and microbusiness
 - Requires license for applicable Nebraska tax programs





- Refundable credit
 - 20% of new investment or employment based on an increase in the year of application and the following year as compared to the Base Year (the tax year prior to application)
 - No stated minimum investment or employment





- New investment:
 - Increase in <u>purchases</u> of buildings and depreciable personal property other than motor vehicles
 - Leased property: <u>Increase in average net</u> <u>annual rents</u> multiplied by years of lease not to exceed 10 years
 - Increase in <u>repairs and maintenance</u>, <u>advertising</u>, <u>legal and professional</u> services





- New employment:
 - Increase in <u>compensation</u> to Nebraska resident employees
 - Include employer cost of health insurance
 - Exclude compensation in excess of 150% of Nebraska average weekly wage (\$1,016 per week)



Nebraska Advantage RESET

Microenterprise Tax Credit Act Application

The taxpayer filing this application must be actively engaged in the operation of a microbusiness in an eligible area. An eligible microbusiness is a business with five or fewer full-time equivalent employees at the time of application, other than a farmer or livestock operator who has a net worth that exceeds \$200,000. Refer to the qualified location information on our Web site www.revenue ne gov to determine if the business is located in an eligible area

		actions to determine	e ii are paoiriedd io iddai	ou iii uii oligibio uio	••		
				PART 1			
		Complete the follow	ing information about th	e taxpayer and the i	microbusiness in which it is involved.		
APPLICANT – NAME AND MAILING ADDRESS				MICR	MICROBUSINESS – NAME AND LOCATION ADDRESS		
CLEARLY)	Legal Name			Name			
TCLE	Street Address (Do not use P.O. Box)		Street or Other N	Mailing Address		
(PRINT	City	State	Zip Code	City	State Zip Code		
				County	Census Tract if in Lancaster or Washington County		
Soci	ial Security Numb	er					

- 1A Describe your business activity including products sold and markets served.
- 1B Explain how you plan to expand your business and how this expansion will address current market needs. Be as specific as you can about when you plan to expand, what purchases you intend to make and/or how you will increase employee compensation.
- The microenterprise tax credit has a \$10,000 lifetime limit for the applicant and any related party. Has a Nebraska Advantage Microenterprise Tax Credit Act application been filed by you, your spouse, parent, sibling, child or a related party? If Yes, please identify: Name______ Social Security Number _____

Name_____ Social Security Number _____ Name_____ Social Security Number ____ Name_____ Social Security Number ____

2B Enter the remaining possible credit. (\$10,000 – line 2A)

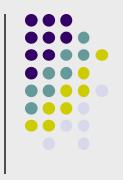
3A Estimated income, expenditures, and credits. If a related person (see question 2 response) has applied, the base year figures and the estimated growth of the microenterprise must be shared (see application guide) and reflected in question 3A response.

	COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E	COLUMN F	COLUMN G
	Base Year	Year 1	Year 1	Year 2	Year 2	Total	
	Tax Year Prior to Application	Year of Application	Increase (Column B-A)	Year After Application	Increase (Column D-A)	Two Year Increase (Column C + E)	Estimated Credit (20% of Column F)
Tax year ending date							
Annual income							
New investment*							
New employment**							
3P Total Estimated Cros	dit					2 D	

- Enter the lesser of line 2B or the credit estimated on line 3B
- * This should include net lease increase, depreciable assets purchases, repairs and maintenance expenditures, advertising, legal and professional services expenditures of the microbusiness, other than expenditures related to vehicles required to be licensed. Use the Lease Caclulation Worksheet in the application guide to determine net lease increase.
- ** New employment means the amount of total compensation plus employer cost for health insurance for Nebraska resident employees.

Ne	braska Advantage Microenterprise Tax Credit Act	Application		Page 2
Appl	icant's Name	Social Security Number		Date
4	How is the applicant involved in the day to day activity of the bus business operation.	l siness? Explain the inv	olvement, the frequency ar	nd the significance to the
5	Enclose a copy of the most recent federal income tax filing for schedules supporting the first 4 pages, Affiliations Schedule copy of each Shareholder's Share of Income, Credits, Deduction a copy of the Profit and Loss from Business (Schedule C) or the year of application, indicate the type of entity. owners, their ownership percentage and their social security in	(Form 851), Deprecia ons, etc. (Schedule K- the Profit or Loss fror If the new b	tion and Amortization Fed 1). If the applicant is a sole n Farming (Schedule F). If	leral Form 4562, and a proprietorship, provide the business is new in
6	Enclose a copy of the most recent Nebraska Reconciliation of	Income Tax Withheld,	Form W-3N.	
	Estimated number of hours paid to hourly or salaried employed	es during the pay peri	od including the date of a	oplication
	What is the payroll frequency (weekly, biweekly, semimonthly January 2, 2009 or your application date whichever is later	, monthly)? Identify th	ne ending date of the pay	roll period that includes
	A copy of the payroll register showing total hours paid to all a provided. This information is due within 10 days of the end of you		period including the date	of application must be
7	Each business must be fully licensed according to the Nebraska This form is available on our Web site at: www.revenue.ne.gov/t Tax Application, (Form 20), and proof of date submitted).			
	Nebraska sales and use tax identification number			
	Nebraska withholding tax identification number			
	Nebraska income tax identification number			
8	Farmers and livestock operators must provide a current net wo on fair market value. The net worth statement must be signed counselor, or an accountant, who gives his/her title and state be accurate. The term "current" means as of the date of application.	and dated by the app s in writing that the i	licant AND a lawyer, bank nformation provided on the	er, loan officer, financial e statement appears to
	E-MAIL: If you allow the department to contact you by e-mail, you accept	pt any risk of loss of conf	identiality associated with this	method of communication.
	AUTHORIZED SIGNATURE: This application must be signed by the in for the applicant by a power of attorney on file with the Department. A			ndividual authorized to sign
S	ign ᢩ			
_	ere Signature Telephone Nu	mber Please Print	your Name	_
	Title	E-mail Addre	ess	





- Part 2: Completed by Nebraska
 Department of Revenue to deny,
 approve, or partially approve the request
 - Review applications on first-in-first-out basis.
 - Use postal date, date of stamped certified mailing receipt, or date received
 - All applications received on the day the available funding is exceeded will be prorated



Nebraska Advantage Microenterprise Tax C	Social Security Number	Page	
ppicallorialio	Coolar Coolary Hamber		
	PART 2		
DEPARTMENT OF REVENUE USE ONLY			
Total Credits Reserved			
		Date	





Part 3:

- Applicants who have received approval of authorized credits will submit the following when filing their Nebraska Individual Tax return, Form 1040N
 - A copy of approved form
 - Properly completed Part 3 and supporting documents
 - Request credit/refund based on actual activity

The Employment and Investment Credit Calculation, Form 3800N, must be filed with the applicant's individual income tax return for the year of application and the following tax year. Attach a copy of this form, signed by the Department of Revenue, to verify authorization to participate in the Microenterprise Tax Credit Act. Complete Part 3 of this form to calculate the credit earned and attach all required documentation. PART 3 Enter the amount of total credits reserved in Part 2..... Enter microenterprise credit in prior year..... 2 Remaining reserved credit (line 1 minus line 2) Calculation of microenterprise credit Column B Column A Column C Column D Column E Base Year -Tax Year Current Increase Credit Credit Prior to Application Tax Year Over Base Year (20% of Col. C) Allowed Tax year ending date Annual income New investment* New employment ** This should include net lease increase, depreciable assets purchases, repairs and maintenance expenditures, advertising, legal and professional services expenditures of the microbusiness, other than expenditures related to vehicles required to be licensed. Use the Lease Caclulation Worksheet in the application guide to determine net lease increase. New employment means the amount of the total compensation plus the employer cost for health insurance for Nebraska resident employees. Total Credit Enter the lesser of line 3 or line 4 Attach a copy of the following documents. Base year and current year: Nebraska Reconciliation of Income Tax Withheld, Form W-3N, including a copy of the attached federal Wage and Tax Statements, Form W-2. Tax depreciation schedule Year end payroll register with year to date information to include total hours paid to hourly and salaried staff. Copy of lease agreements for any lease of qualified property. Current Year: Copy of invoices supporting purchases of fixed assets, repairs and maintenance, advertising, legal and professional services. E-MAIL: If you allow the department to contact you by e-mail, you accept any risk of loss of confidentiality associated with this method of communication. AUTHORIZED SIGNATURE. This application must be signed by the individual actively involved in the microbusiness, or an individual authorized to sign for the applicant by a power of attorney on file with the Department. Attach a copy of a completed power of attorney. sign Please Print your Name Signature Telephone Number

E-mail Address

2 3

Title





- New investment
 - Purchased \$40,000 in equipment base year and purchased \$100,000 in year of application
 - \$60,000 x 20% = \$12,000 limited to \$10,000 credit
 - Renewed building lease for three years.
 The annual lease payment increased from \$36,000 per year to \$48,000 per year
 - \$12,000/year x 3 years x 20% = \$7,200 credit

Examples (continued):

- New Employment
 - Three employees each received a \$1,500 raise in the year of application. Other compensation the same as base year.
 - \$1,500 x 3 employees x 20% = \$900 credit
- Microbusiness Size
 - 6 part time employees each work 30 hours in the pay period including the date of application
 - 30 hours x 6 employees = 180 hours
 - 180 hours/40 hours per week = 4.5 FTE Eligible





- Related Parties
 - If two brothers apply for separate and distinct business activities, can they both claim \$10,000 in credit?



- Reported Information
 - Total authorized, used and expired credits.
 - Amount of employment and investment made
 - No specific information by applicant



Nebraska Advantage Microenterprise Tax Credit Act

Mary Hugo Nebraska Department of Revenue 402-471-5790

> mary.hugo@nebraska.gov www.revenue.ne.gov

Bill Weekly 402-471-5862

Kim Nelson 402-471-5947

Microenterprise End